

Housing Programs

April 2006 Newsletter

www.rurdev.usda.gov/mt/



Committed to the future of rural communities.

W.T. (Tim) Ryan, State Director
Deborah Chorlton, Housing Programs Director



BEST FOR THE BORROWER

USDA Rural Development's (RD) Guaranteed Rural Housing Program (GRH) is labeled **"Best for the Borrower"** by the Montana RD staff. The GRH Program offers a 90% loan guarantee to lenders, which minimizes their lending risk. The best aspect of this program is that it helps to create affordable housing opportunities for families that earn less than 115% of the area median income by allowing 102% of the appraised value to be financed. This allows borrowers to finance 100% of the purchase price plus most, if not all, of the closing costs. This program does not require a down payment, therefore lower income families don't have to save money for years to buy a house.

There is no mortgage insurance added to a borrower's loan payment. This reduces the loan payment and provides the borrower with more purchasing power. Families that don't qualify to buy a home under conventional programs can increase their purchasing power by using this program.

The term "Affordable Housing" has become an oxymoron in many Montana communities. While home prices keep rising, it is more important than ever that lenders help buyers find the best mortgage available. Mortgage products need to contain affordability characteristics so the lower income population is not left out. For some families obtaining the American dream of homeownership can become a reality by utilizing Rural Development's GRH program, which we consider to be **"Best for the Borrower"**.

USDA Rural Development's 502 Direct Leveraging program creates affordability by blending interest rates. Unlike the conventional 80/20 loans, where the blended rate is usually higher than the market rate, RD Leveraged transactions with Montana Board of Housing (MBOH) utilize below market interest rates on both the first and second mortgages so the blended rate is **always** lower than market rates.

Leveraging is more profitable for the lender when using MBOH. MBOH will allow 1.5% on lender fees and will purchase the loan at 102%, allowing a total of 3.5% on their portion of the loan. Rural Development will allow a \$500 packaging fee. Here is an example of lender profit for a \$150,000 loan.

\$75,000 1st Mortgage	1.5%	\$1,125
	2.0%	\$1,500
RD \$75,000 2nd Mortgage		<u>\$ 500</u>
Total Lender Profit (4.16%)		\$3,125

Rural Development's Direct Leveraging program can be profitable for lenders and it certainly helps create affordability for borrowers.



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To file a complaint of discrimination, write USDA, Director, Office of Civil Rights, 1400 Independence Ave. S.W.
Washington DC 20250-9140 or call (800)795-3272 (voice) or (202)720-6382 (TTD).



RURAL DEVELOPMENT HOUSING PROGRAMS FY 2006 TO DATE

Guaranteed Loans:	172	\$20,129,357
502 Direct:	34	\$ 3,075,945
504 Loan/Grants	23	\$ 162,290
Self-Help Grants	5	\$ 1,346,253
HAPG Grants	3	\$ 10,000
MFH/RA	88	\$ 861,378

TOTAL: **325 \$25,585,223**



DIRECT LOAN PROGRAMS

FUNDING

As of March 31st, we have obligated thirty four 502 loans for a total dollar amount of \$3,075,945. We have obligated twenty three 504 loans and grants for a total dollar amount of \$162,290.

We continue to have ample funding available in both low and very low income categories. Pooling of funds is scheduled for July 14, 2006. Please contact your Area Office to reserve funding.

Rural Development's 504 Loan and Grant Program

We don't often talk about our 504 loan and grant program with lenders and/or partners, because we know you typically deal with purchase money mortgages. It is possible, however, that we are overlooking a valuable resource in getting the word out about this necessary and beneficial program. You may receive inquiries or know someone who could benefit from one or both of these programs.

Our **504 loan** program is designated to assist very-low income homeowners improve or modernize their

existing home. The maximum loan amount is \$20,000. The interest rate is 1%, with a maximum loan term of 20 years. Loans less than \$7,500 are unsecured and appraisals are not required on loans less than \$15,000.

Program funds can be leveraged with purchase money to complete needed repairs.

Our **504 grant** program may be available to pay the cost to remove identified health and safety hazards. To qualify, the applicant must be 62 or older and not have the financial capability to obtain a loan. The maximum lifetime grant amount is \$7,500 and the applicant must agree not to sell the home for three years. If the property is sold, the grant funds must be repaid.

Contact your Area Office for complete requirements.

GUARANTEED LOAN PROGRAM

FUNDING

The Fiscal Year 2006 budget that includes funding for the Single Family Housing Guaranteed Loan Program (SFHGLP) has been passed by Congress and signed into law by the President. The program is funded at a level that will allow over \$3 billion in new loan guarantees during Fiscal Year 2006

Lender Origination and Servicing Handbooks

The Housing Section of Montana Rural Development's website found at www.rurdev.usda.gov/mt is in the process of being updated. Lender Origination and Servicing Handbooks, and a Realtor Guide have been created and will be accessible on this site within the next 30 days.



GUARANTEED ADMINISTRATIVE NOTICES

The following Administrative Notices (AN) have recently been reissued with no major changes and can be read at http://rdinit.usda.gov/regs/an_list.html.

AN 4120 – Report of Real Estate Owned Sold and Future Recovery of Sale Proceed

AN 4122 – Occupied Real Estate Owned Inspection, Valuation, and Loss Claims

AN 4134 – Refinancing of Single Family Housing Guaranteed Loans

AN 4137 – Refinancing of Section 502 Direct Loans with Section 502 Guaranteed Loans

AN 4138 – Loss Claim and Future Recovery Processing

AN 4145 – Existing Dwelling Inspection Requirements; Acceptable Origination Appraisal Forms

This AN discusses recent changes to repair and inspection requirements and replaces RD AN 4114 dated October 21, 2005, which is hereby retired.

AN 4149 – Eligibility of Non-U.S. Citizens for Single Family Housing Guaranteed Loan Program Assistance

AN 4150 – Foreclosures and Bids

AN 4121 – Single Family Housing Guaranteed Loan Program (SFHGLP)
Liquidation Value Appraisals
Definition of Value Type and Procedure

This is a new AN. It provides guidance on the definition of a liquidation value appraisal and outlines the steps taken in obtaining a report from a State Certified or Residential Appraiser in conjunction with Real Estate Owned (REO) property guaranteed under the SFHGLP.

AN 4143 - Conditional Commitment for Loan Guarantee Proposed New Construction.

This is a new AN to clarify the expiration date of the Guaranteed Rural Housing Conditional Commitment when new construction is involved.

AN 4162 – Approved Lender Underwriting Guidelines

AN 4163 – Debt Ratio Waivers

AN 4165 – Loss Mitigation Comprehensive Policy Clarification

AN 4168 – Acceptable Foreclosure Time Frames

AN 4169 – Acceptable Liquidation Fees and Costs

AN 4170 – Applicant Credit History Verification

AN 4171 – Utilizing Credit Scores for Underwriting

ARCHITECT'S CORNER

Managing Mold During Construction

No one expects to find mold growing in their homes during construction, but when it was recently determined that harmless varieties of mold had indeed “bloomed” in several crawl spaces, Rural Development responded with guidance to avoid this situation from reoccurring. Recent experience of mold growth under wet conditions during the construction phase resulted in delays in construction and unplanned remediation to remove visible mold spores from crawl spaces. Natural ventilation of crawl space areas has been the standard requirement of the *International Residential Code*. The *Code* also provides an exception allowing a crawl space to be mechanically ventilated as a conditioned space. Use of these newer *Code* (R408.2) exceptions has been promoted by designers, building officials, and proponents of energy efficient construction.



Rural Development’s new regulation would only affect new construction of residences designed with mechanically ventilated crawl spaces and would not apply to any loan application proposing the purchase of an existing home. The new policy includes two preventative measures. First, a contract agreement requires the contractor to take necessary precautions to maintain a dry crawl space environment during a period of time after the floor framing and decking is installed until the time when the roof structure is sheathed and “dried-in” with roofing paper. Second, the frequency of inspections is increased when appropriate.

However, as we all know, weather happens! When it does, the policy spells out appropriate actions to reduce high moisture conditions within the crawl space, such as the installation of a ground cover, introducing adequate, natural ventilation, temporary mechanical ventilation, or dehumidification until the high moisture conditions are sufficiently reduced. Finally, the policy provides standard safe work procedures for remediation if mold growth in the crawl space area is observed. For a copy of Rural Development’s guidance, please call 406-585-2515 or go to the Agency’s website.

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